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**Fourteenth Issue
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The HKIMR was established by the Hong Kong Monetary Authority (HKMA) in August 1999 to conduct and support research on issues in monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asian region.

Highlights of this issue:

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HKIMR/WISE Conference on the Mainland Economy

Hong Kong Institute for Monetary Research -- *Newsletter*

The Fourth Annual Central Bank Workshop on the Microstructure of Financial Markets

The 4th Annual Central Bank Workshop on the Microstructure of Financial Markets jointly organised by the Hong Kong Institute for Monetary Research (HKIMR) and the Asian Office of the Bank for International Settlements (BIS) was held on 18 and 19 September 2008.

This workshop was the fourth in a series of similar events that have been held in Oslo (2005), Ottawa (2006) and Budapest (2007). It aimed at providing an opportunity for researchers and practitioners to discuss theoretical and empirical issues regarding the microstructure of financial markets and for researchers studying different financial markets to interact.

This two-day conference dealt with a wide variety of issues associated with fixed income, foreign exchange, equity, and credit default swap markets. A total of sixteen papers were presented by financial markets experts from all over the world including senior officials at central banks and university professors. Keynote speeches were delivered by Michael Melvin (Barclays Global Investors) and Kalok Chan (Hong Kong University of Science and Technology).

The workshop was attended by over forty participants. Speakers and guests actively participated in both the conference and discussions.



Hans Genberg of the HKIMR (left) and Eli Remolona of the BIS (right) delivering opening remarks



Over forty workshop participants



Michael Melvin (Barclays Global Investors) delivering the keynote speech

Announcement



Dr. Matthew Yiu, Senior Manager of the Institute, will leave the HKIMR in early December 2008 and return to the Hong Kong Monetary Authority (HKMA). The HKIMR expresses its gratitude to him for his contributions over the past nine years and wishes him every success at the Research Department of the HKMA. Mr. Hongyi Chen, Senior Manager of the HKMA External Department, will succeed Matthew.



Pierre Siklos (Wilfrid Laurier University)



Dudley Cooke (Trinity College Dublin)

The Sixth HKIMR Summer Workshop

The Sixth HKIMR Summer Workshop was held on 28 August 2008. The workshop began with the paper “As Good as It Gets? The International Dimension to Canada’s Monetary Policy Strategy Choices” by Pierre Siklos (Wilfrid Laurier University). After that, Dudley Cooke (Trinity College Dublin) presented his paper “Openness and Inflation”. After a break, the workshop resumed with the presentation of “Why so Glum? The Meese-Rogoff Methodology Meets the Stock Market” by Andrew Rose (University of California, Berkeley). The workshop finished with Giorgio Valente (University of Leicester) presenting his paper entitled “Market Liquidity and FX arbitrage: Evidence from HK Tick Data”.



Andrew Rose (University of California, Berkeley)



Giorgio Valente (University of Leicester)

Doctoral Intern – Menno Middeldorp



Menno Middeldorp is a PhD student from Utrecht University in the Netherlands (9th in Europe and 47th in the world on the 2008 Shanghai Academic Ranking). The topic of his thesis is Central Bank Communication and the Financial Markets. Menno was an economist at the Dutch financial institution, Rabobank, for almost a decade. He spent the last two of these years as senior economist at the Economic Research Department, covering the Dutch economy. Prior to this he worked on the trading floor as senior economist and interest rate strategist. In both these roles he produced regular reports on a variety of topics and presented his work to clients ranging from retail investors and small business to institutional investors and listed companies. He also regularly commented on economic and financial affairs in the Dutch media. Menno received his Masters Degree in Economics from Erasmus University Rotterdam in 1997.

Unlike most foreign researchers at the HKIMR, I moved to Hong Kong prior to visiting the Institute. My wife came here to lead Rabobank's corporate finance team in Asia and I joined her with the intention of finishing full-time the PhD research that I had started part-time when I was working for the same bank.

The HKIMR's reputation, however, preceded my arrival, as enthusiastic reports had already reached me in the Netherlands. Soon after moving I started visiting the seminars regularly hosted by the HKIMR as they offered interesting topics and high profile speakers. These were informative and thought-provoking, thanks not only to the speakers but also due to the insightful comments from scholars visiting the HKIMR and research staff from fellow IFC2 tenants HKMA, BIS and IMF. Consequently, when the HKIMR gave me the opportunity to present my own research, I was delighted and pleased to benefit from this concentration of expertise.

Later, I was even more delighted to learn that my application for a doctoral internship had been accepted. The Institute offers excellent facilities for research (although there is a risk of distraction from the spectacular view from the 79th floor) while staff Cathy, Patrick and Kenneth are ever friendly and helpful. Furthermore, there is ample occasion for enriching interactions with HKIMR's Dr. Yiu and the many visiting scholars.

The research I am doing at the HKIMR is an extension of my earlier work by other means. When "central bank watching" at Rabobank it occurred to me that the increase in central bank communication had reduced the need for financial market participants to invest in their own assessment of future monetary policy. Why pay Fed watchers like me when the Fed forecasts its own rates for free? It also occurred to me, however, that if all market participants acted in this way that this reduces the amount of private information available to the market, the aggregate loss of which may not compensate for the additional information being provided by the central bank.

Using a rational expectations equilibrium asset market model with costly information acquisition, my PhD advisors, Prof. Clemens Kool and Prof. Stephanie Rosenkranz, and I show that it is theoretically possible that central bank communication crowds out more private information than it contributes in public information. Specifically the model predicts a U-shaped relationship between the precision of central bank communication and the errors of market forecasts of monetary policy.

A problem with this type of model, however, is that important model parameters are unobservable in the real world. To address this, Prof. Rosenkranz and I conducted an asset market experiment, which confirmed the theoretical findings.

My research at the HKIMR uses data from surveys of professional interest rate forecasts to examine the effect of more active central bank communication, particularly in the Asia-Pacific. The first very tentative and preliminary results suggest that greater communication helps to improve forecasts, but only up to a point. Beyond this, more information increases errors slightly. It is not yet clear, however, whether this U-shaped relationship is due to the effect described in the theoretical work or due to some other effect such as information overload, nor for that matter whether this preliminary result will stand up to further econometric scrutiny. Thankfully, I can make use of my remaining months in the excellent research environment of the HKIMR to tackle these questions.



"The HKIMR's reputation preceded my arrival, as enthusiastic reports had already reached me in the Netherlands."

HKIMR/WISE Conference on the Mainland Economy

The HKIMR and the Wang Yanan Institute for Studies in Economics (WISE) of Xiamen University co-organised a two-day conference on the Mainland economy entitled "Efficiency and Stability of the Financial System in Mainland China" on 16 and 17 October 2008. This conference is the sixth of the HKIMR conference series relating to Mainland China.

The aim of this conference was to provide a platform for discussing the development of financial markets in Mainland China. In this two-day conference, a number of topics were examined including the Chinese stock market, the government bond market, the impact of the US subprime mortgage crisis on Mainland China, capital account liberalization, bank loan characteristics and monetary policy in Mainland China. Ten papers in these areas were presented. This conference was attended by over forty participants from different Mainland institutions, such as the People's Bank of China and universities, and other international organisations including the Bank for International Settlements.



Peter Pang of the HKIMR delivering opening remarks



Yongmiao Hong (WISE, Xiamen University)



Discussion during the conference dinner

Upcoming Activities

Conference on Property Markets and Finance

The Asian Office of the Bank for International Settlements and the Hong Kong Institute for Monetary Research are jointly organising a two-day conference on property markets and finance, on 12 and 13 January 2009 in Hong Kong.

This conference will create a platform for sharing insights on the relationship between the real estate market and the financial markets, how shocks are propagated and how different types of policies can contribute to dampening negative effects once a crisis has already begun.

Asian Economic and Financial Outlook Seminar

The Asian Development Bank (ADB) and the Hong Kong Institute for Monetary Research are jointly organising a seminar on Asian economic and financial outlooks. The seminar will be held on 11 December 2008 in Hong Kong. The representatives of the HKMA, HKIMR, ADB, IMF, BIS and Bank of Korea will attend the seminar to discuss the current issues facing this region.

Upcoming Visiting Fellows and Seminar

5 – 30 Jan
Harald Scheule (*The University of Melbourne*)

12 Jan – 3 Feb
Shang-jin Wei (*Columbia University*)

12 Jan – 11 Feb
Michael Pomerleano (*Bank for International Settlements*)

2 Feb – 6 March
Graham Voss (*University of Victoria, Canada*)

2 Feb – 13 March
Paul McNelis (*Fordham University*)

1 March – 31 May
Leo Goodstadt (*University of Dublin*)

4 December 2008 *What Drove the Mismatch between Initial CDO Credit Ratings and Subsequent Performance?* – John Griffin (*University of Texas at Austin*)

16 January 2009 *The Global Financial Crisis* – Michael Pomerleano (*Bank for International Settlements*)

Deadline for Visiting Research Fellowship Applications

The Council of Advisors reviews proposals four times a year. The deadline for the next round of applications is 28 November 2008.

Recent HKIMR Working Papers

No.13/2008 “*Are All Measures of International Reserves Created Equal? An Empirical Comparison of International Reserve Ratios*” by Yin-Wong Cheung and Clement Yuk-Pang Wong

No.14/2008 “*Evidence on the External Finance Premium from the US and Emerging Asian Corporate Bond Markets*” by Paul Mizen and Serafeim Tsoukas

No.15/2008 “*Credit Losses in Economic Downturns - Empirical Evidence for Hong Kong Mortgage Loans*” by Daniel Rosch and Harald Scheule

No.16/2008 “*Credit Crunch, Creditor Protection, and Asset Prices*” by Galina Hale, Assaf Razin and Hui Tong

No.17/2008 “*The Optimal Currency Basket with Input Currency and Output Currency*” by Kang Shi and Juanyi Xu

No.18/2008 “*Determinants of Emerging Market Spreads: Domestic, Global Factors, and Volatility*” by Pierre Siklos

No.19/2008 “*What Future for the Hong Kong Dollar Corporate Bond Market?*” by Tony Latter

No.20/2008 “*Return, Trading Volume, and Market Depth in Currency Futures Markets*” by Ai-ru (Meg) Cheng and Yin-Wong Cheung

and more please visit our web site.

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